AN INTERTEC PUBLICATION

MONDAY, MAY 30, 1988

Telephony

INTEGRATING VOICE AND DATA COMMUNICATIONS

$3

SHOPPING FOR PHONE SERVICES

Residential users want much more than just plain old telephone service

A SUPER SUCCESS IN ATLANTA

Nearly 15,000 flock to SUPERCOMM

PRICE-CAP PLAN READY FOR REVIEW

FCC leaves many details open for discussion

MONDAY, MAY 30, 1988 Volume 214, No. 22

Telephony

INTEGRATING VOICE AND DATA COMMUNICATIONS

Residential customers shopping for services are skipping the generic aisle to choose from a wide variety of enhanced services. Cover by Dick Luria, FPG International.

DEPARTMENTS

49 ADVERTISERS' INDEX

6 IN MY OPINION

17 MEETINGS

48 MOVING AROUND INDUSTRY

36 NEW PRODUCTS AND SERVICES

NEWS OF THE WEEK

10 **SUPERCOMM LIVES UP TO ITS BILLING**
Before USTA and USTSA closed the doors to the World Congress Center in Atlanta, nearly 15,000 had filed in to see what's hot

10 **FULL PRICE-CAP PLAN MAKES DEBUT**
The FCC churned out a 300-page proposal, but still leaves many issues open for negotiation

11 **SIEMENS LANDS PIVOTAL CO BID**
Siemens landed its biggest RHC contract when Bell Atlantic agreed to purchase its digital CO switching gear

11 **PROJECT VICTORIA GETS PARTIAL WAIVER**
The FCC granted Pacific Bell a one-year waiver on CPE rules to conduct a trial of its Project Victoria technology

12 **NTT, BUNDESPOST STRESS OPEN MARKETS**
Officials from the two carriers told SUPERCOMM attendees their markets are almost ready for U.S. products

14 **NT PUTS 2B+D ON-LINE IN ILLINOIS**
Northern Telecom signed a contract with Illinois Bell for 1750 ISDN basic rate lines for commercial service in November

FEATURES

22 **CELLULAR OPERATORS FEEL THE SQUEEZE**
By William C.Y. Lee. The cellular industry is running out of spectrum, and the FCC won't add any. Digital cellular technology may be the answer

26 **SHOPPING FOR SERVICES**
By David L. Wenner and H. Jeffrey Katz. Residential customers are skipping the generic services aisle, favoring instead enhanced service offerings. And they're willing to pay for them

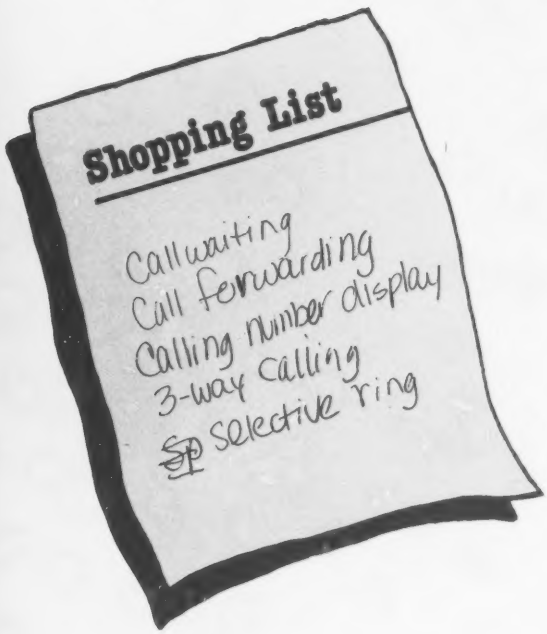
31 **OPPORTUNITY 'BEEPS' FOR TELCO PAGING**
By Jim Bowen. Cellular telephones have captured most of the attention paid to land mobile in the recent years, but the number of radio pagers has continued to grow by 20% per year

TELEPHONY (ISSN 0040-2656) is published weekly by Telephony Division, Intertec Publishing. Postmaster: Please send address changes to Subscription Dept. TELEPHONY, 55 E. Jackson Blvd., Chicago, IL 60604-4186. Second class postage paid at Chicago, IL, and at additional mailing offices. Single copies (payable in advance) U.S. $3.00 ea. Outside U.S. add $1.00 ea. Subscriptions: $35 one year. Outside U.S. $61 per year. Subscription rates apply to employees of operating telephone companies; telephone consultants; contractors; interconnect companies; specialized common carriers; military; government; associations; private communications users; schools; libraries. Change of address: include old address as well as new address. Attach issue label if possible. Allow 4 weeks for change to become effective. Copyright 1988 by Telephony Division, Intertec Publishing. All rights reserved. Permission to photocopy for internal or personal use or the internal or personal use of specific clients is granted by Telephony for libraries and other users registered with the Copyright Clearance Center (CCC) provided that the fee of $1.50 per page is paid directly to CCC, 21 Congress St., Salem, MA 01970. Special requests should be addressed to publisher.

Shopping for services

Residential customers are bypassing the generic service aisle to browse at the more exotic enhanced services counter

DAVID L. WENNER and H. JEFFREY KATZ



Telephone customers just wanna have fun.

Despite the gallant efforts of the telecommunications industry and policy-makers in Washington to assure that universal service is available at reasonable costs, no frills telephone service is not the issue right now. This is the '80s. It is an era when materialism has reached an all-time high and basic is losing to enhanced on almost all fronts.

In fact, a survey conducted and funded by McKinsey & Co. Inc. shows that residential customers are willing to pay for many other services.

The survey, supported by field work from Independent Opinion Research, examined the attitudes of telephone service customers in the United States on a variety of issues—including satisfaction with current services, interest and willingness to pay for new services and capabilities, and demand for one-stop shopping. McKinsey surveyed representative samples in three segments: 250 residential customers, 150 small business customers and 100 large business customers. The results from the residential segment were the most surprising. They revealed a sizable untapped market for phone companies, equipment companies and enhanced service providers.

Survey Results

The results fell into four categories: customer satisfaction, custom calling services, differentiated levels of service and one-stop shopping.

Apparently, the increases in local rates and subscriber line charges that have been put in place since divestiture have not engendered widespread resentment: Residential customers are generally happy with the local service they now receive. We surveyed three key attributes of service quality: clarity/quality of connection, response time for repairs and courtesy and responsiveness of telephone company personnel. More than two-thirds of the respondents were at least satisfied with each attribute; in fact, over 40% reported being very satisfied in every case (Figure 1).

Not only are customers satisfied with their local phone service; they also believe they're getting their money's worth. Fifty-nine percent of the respondents reported that they consider the price they pay for local phone service to be either fair or a bargain.

Untapped Market

Although customers are happy with their basic local service, they expressed a surprising level of interest—and willingness—to pay a specified price for these services. For example, the potential demand for custom calling services greatly exceeds current penetration. For an additional $2 a month, the number of non-subscribers who are willing to pay for call waiting, call forwarding, three-way calling and speed dialing exceeds the number of current subscribers (Figure 2). In fact, for three of these four services, the remaining market potential appears to be more than double the size of the current penetration. If these results are typical of other services as well, there are clearly opportunities for large revenue gains for local phone companies.

High Interest

Customers also expressed an interest in being able to pay for improved levels of service, such as an "Express Service" that would guarantee that all repairs and installations would be handled within four hours. A majority of customers said that they would pay $1 a month for that kind of potential service (Figure 3). More interestingly, 20% of the respondents said they would pay as much as $5 a month for it. Offering multiple levels of service for different customer segments may represent a significant revenue opportunity for phone companies.

Considerable Interest

The services described above are all possible through current technology. We also probed interest levels in new services that will be possible with capabilities like signaling system No. 7, or SS7, and the integrated services digital network, or ISDN. Again, the

continued on page 28

FIGURE 1 RESPONDENTS WHO WERE SOMEWHAT OR VERY SATISFIED WITH SERVICE ATTRIBUTES

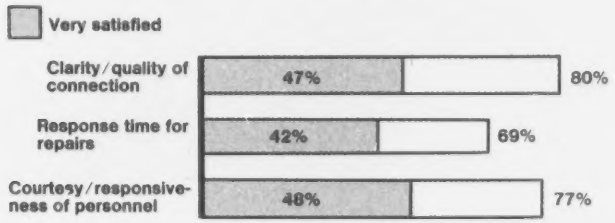
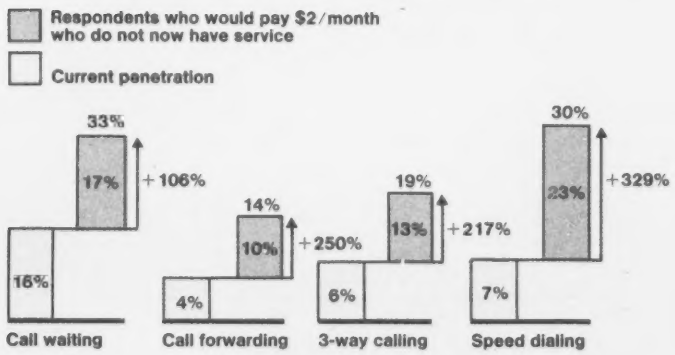


FIGURE 2 CUSTOM CALLING FEATURES



level of interest in additional services was surprising.

In conducting the survey we described some of the new services that will be possible through SS7—such as a display of the number of the last party who called, blocking of calls from specified numbers, call tracing, a special ring for selected callers and call forwarding for selected callers only. The interest in each of these services ranged from 15% of those we interviewed to 43%. Most of the respondents actually stated they would buy the service at the prices indicated in Figure 4. The most popular services were those that displayed the identity of the calling party, with as many as one-third of respondents expressing purchase interest. But even the least popular services generated as much interest as some custom calling services do today.

Interest in the services that will be possible with ISDN and broadband technology is also strong. We queried the respondents on their interest in high-fidelity telephone calls, high-quality facsimile and videotelephone. If their responses are reflective of most customers, over one-fifth of residential customers would pay $5 per month for high-fidelity voice telephone calling, which could be provided with advanced digital encoding on an ISDN B-channel (Figure 5). That means that for many residential customers, the incremental cost of ISDN could be largely justified through superior voice quality alone. And a smaller, but still significant, number of customers would pay $10 a month for a high-speed, high-quality facsimile if most other residential customers had the equipment to receive the transmission.

As for videotelephone, a majority of respondents were at least somewhat interested, and a quarter of them would pay $10 a month for it. This, of course, is an unrealistically low price at the present time. However, if progress continues in reducing the costs of video compression and coding circuits, the day of the $500 B-channel videotelephone may not be far off. The important point for now is that the public's latent interest in videotelephony appears to be substantially higher than many people had assumed.

Strong Preferences

The strong sentiment expressed by respondents came when we raised the issue of "one-stop shopping"—in other words, having a single source for all their telephone needs. Nearly two-thirds of residential customers that responded said that it was either very important or extremely important to be able to buy all their telephone-related products and services from one company (Figure 6).

Since many customers have expressed that view

FIGURE 3 RESPONDENTS WHO WOULD BUY EXPRESS SERVICE THAT GUARANTEES ALL REPAIRS AND INSTALLATION WILL BE HANDLED WITHIN 4 HOURS OF REQUEST

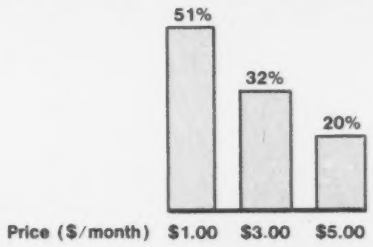
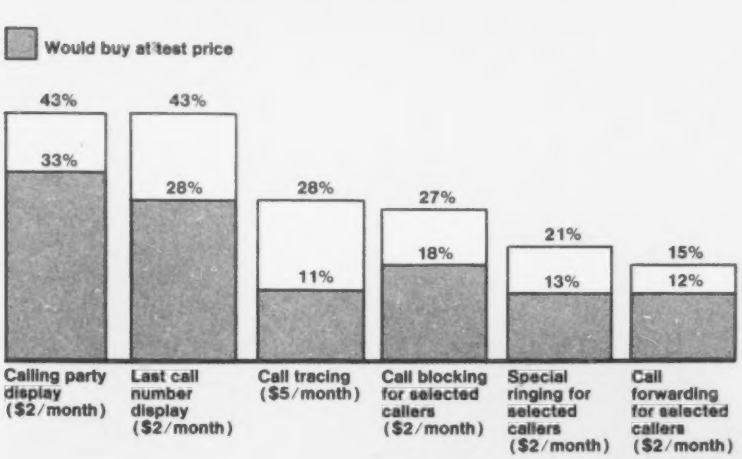


FIGURE 4 RESPONDENTS WHO WERE VERY OR SOMEWHAT INTERESTED IN SS7-BASED SERVICES



since the AT&T divestiture, it does not come as a surprise. What is new, however, is the fact that customers are willing to pay for one-stop shopping. As Figure 7 shows, the majority of customers would forego a 10% discount on long-distance service, and a 20% discount on telephones (equipment), if they could buy them where they obtain their local telephone service. While the Bell System divestiture undoubtedly stimulated price and product/service competition, many customers apparently feel they are paying a price in convenience.

Interestingly, customer demand for one-stop shopping may extend to cable TV service as well. Current CATV subscribers were asked whether they would switch to their local telephone company if it provided cable TV service "over their wires," sent a single bill for phone and cable service, and handled all repairs. Seventy-two percent of respondents said they would switch if the price were the same as their current cable price, and another 14% would switch if the price were 5% cheaper. It is not clear whether this represents a preference for telcos over current cable operators, or simply a preference for one-stop shopping. There is clearly an opportunity for telcos to capture much of the cable TV business on a broadband network.

Implications

These findings are certainly not the final word in market research. Our survey included only a limited number of topics and the sample was only of moderate size. Other research efforts could undoubtedly uncover additional opportunities, and larger samples would produce findings that could be interpreted in terms of additional market segments. The real lesson, we believe, is that industry participants should make significant investments in learning about customer desires and demand levels, and should incorporate those findings into their product and service plans.

Nevertheless, even the results discussed here point to a number of revenue opportunities.

Telco Opportunities

Clearly, telephone companies can benefit from greater marketing efforts. In addition to beefing up traditional advertising or telemarketing programs, telcos might consider marketing approaches not yet widely used in the industry, such as free trial.

They may also want to experiment with new services that are possible with current technology, such as the Express Service described earlier.

In the longer run, there is significant demand for new services that will be made possible with network capabilities like SS7 and ISDN. Telcos should focus more on the revenue opportunities from these technologies, particularly from residential customers, and should view them as more than just network modernization projects and cost reductions. Network planning, service development and marketing should all be driven more directly by customer demand for new features and benefits.

Equipment suppliers also stand to benefit from the high level of interest in the services possible

continued on page 30

FIGURE 5 RESPONDENTS WHO WERE VERY OR SOMEWHAT INTERESTED IN ISDN/BROADBAND SERVICES

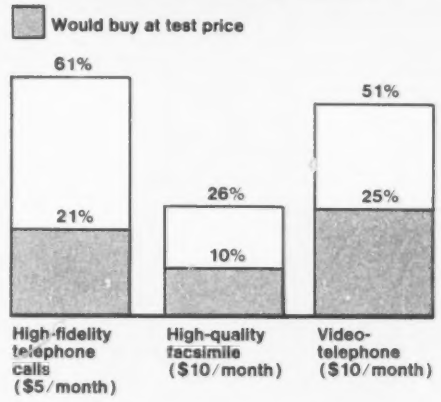


FIGURE 6 IMPORTANCE OF PURCHASING ALL TELEPHONE SERVICES FROM ONE COMPANY (LOCAL, LONG-DISTANCE AND TELEPHONES)

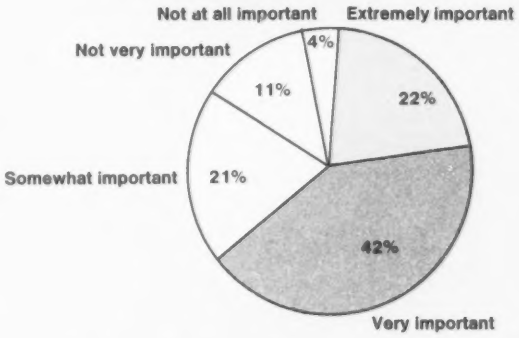
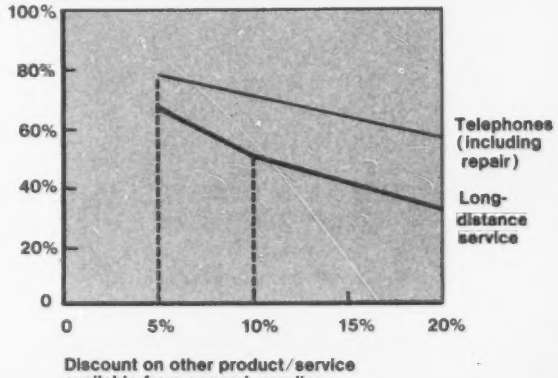


FIGURE 7 INTEREST IN PURCHASING LOCAL SERVICE AND OTHER PRODUCT/SERVICE FROM ONE SOURCE

Percentage of respondents who would purchase both local and other product/service from one source, even without discount available on other product/service from second supplier



Shopping *continued*

through new technologies. Many network services need to be used in conjunction with new premises equipment, such as high-fidelity digital telephones, calling-party display phones, and eventually ISDN videotelephones. To fully realize the potential of these markets, equipment suppliers must closely follow the network developments of telcos (and work closely with them, if allowed) to offer premises equipment that complements new network capabilities.

There will also be opportunities for enhanced service providers, or ESPs. For example, many customers would prefer to have a display of the name (and possibly address) of a calling party, rather than just the phone number. It is questionable whether the BOCs will be permitted to provide such information under the terms of U.S. District Judge Harold Greene's March 7 ruling on information services. With Open Network Architecture, however, an ESP could intercept the calling-party phone number, route the number to a white pages database for a name and address, and then transmit the complete information back to the customer—all within fractions of a second.

One-Stop Shopping

It's not clear how the industry should respond to the strong demand for one-stop shopping. The natural source would be the local telephone companies, since they have the necessary presence and contact with the greatest number of customers. But the divestiture agreement obviously prevents the Bell companies from being single-source providers. Others that currently have direct contact with residential customers and might serve as a one-stop source are the long-distance providers and major CPE suppliers. Responding to this customer need will require new approaches by participants and policy-makers. However, because customer demand for one-stop shopping is so strong, it is worth the effort.

The results of this survey imply that the industry should give even greater emphasis to customer demand. All product development and marketing plans should be based on a full understanding of customer demand for new features and services.

Opportunity will not just knock, it will beat on the doors of the companies that respond to customer demand. T

H. Jeffrey Katz is a Telecommunications Specialist at McKinsey & Co. Inc.

David L. Wenner is a Director of McKinsey & Co. Inc., Atlanta, and a leader of the firm's telecommunications practice.

Pacific Inter Tel

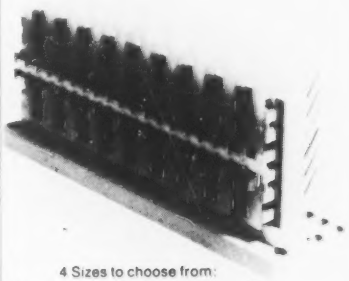
Serves independent telephone companies and Specializes in Stromberg Carlson DCO Circuit Board Repairs.

CONTACT:
Mike Jewett for pricing and shipping instructions

22550 SW 108TH, SHERWOOD, OR 97140
(503) 692-3820

Circle No. 4 on Reader Service Card

IV-6025 CUTOVER SWITCH



4 Sizes to choose from:
List 2—19 ea. 2 wire ckts. per unit
List 3—19 ea. 3 wire ckts. per unit
List 4—10 ea. 4 wire ckts. per unit
List 6—10 ea. 6 wire ckts. per unit

The IV-6025 Cutover Switch is used for transferring of telephone line circuits, trunk circuits, or signaling circuits from one route to another with minimum service interruption.

I-V PRODUCTS

P.O. Box 16153
Seattle, Wash. 98116
TEL: 206-463-9830

Circle No. 5 on Reader Service Card